

# Legislative Audit Division

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State of Montana



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Report to the Legislature

October 2006

## **Financial-Compliance Audit** **For the Two Fiscal Years Ended June 30, 2006**

### **Department of Justice**

This report contains five recommendations regarding:

- ▶ Controls over Motor Vehicle Revenues Received on County Collection Reports.
- ▶ Timeliness of Revenues Received by Montana Interactive, Inc.
- ▶ Errors in Accounting for Montana Law Enforcement Academy revenues, Youth Detention Facility expenditures, and Construction Work-In-Progress assets.
- ▶ Noncompliance with State Laws.
- ▶ Timeliness of Cash Deposits.

Direct comments/inquiries to:  
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Helena MT 59620-1705

06-18

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## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
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Legislative Audit Division  
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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

October 2006

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Justice (department) for the two fiscal years ended June 30, 2006. Included in this report are five recommendations related to the department. The written responses to the audit recommendations are included at the end of the audit report. We thank the Attorney General and the department staff for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ James Gillett*

James Gillett  
Deputy Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2006**

## **Department of Justice**

Members of the audit staff involved in this audit were Rick Eneas, Jennifer Erdahl, John Fine, Geri Hoffman, Brenda Kedish, Vickie Rauser, and Melissa Soldano.

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## **Elected, Appointed, and Administrative Officials**

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### **Department of Justice**

Mike McGrath, Attorney General  
 Larry Fasbender, Deputy Director/Chief of Staff  
 Galen Hollenbaugh, Deputy Chief of Staff  
 Chris Tweeten, Chief Civil Counsel  
 John Connor, Chief Criminal Counsel

#### Division Administrators

Robert 'Skip' Culver, Central Services  
 Roland Mena, Crime Control  
 Bill Griffenberg, Information Technology Services  
 Bill Unger, Forensic Science  
 Colonel Paul K. Grimstad, Highway Patrol  
 Mike Batista, Criminal Investigation  
 Dean Roberts, Motor Vehicle  
 Gene Huntington, Gambling Control

### **Montana Board of Crime Control**

		Term Expires <u>January 1</u>
Janet Donahue, Chair	Local Government	2009
Mike Anderson	MBCC	2009
Shannon Augare	Community Organizations	2009
Mikie Baker-Hajek	Citizen Member of Community Organizations	2009
Alex Capdeville	General Public	2007
Jim Cashell	Local Law Enforcement	2009
William Crismore	General Public	2007
Lynn Erickson	Local Law Enforcement	2009
Mike Ferriter	State Law Enforcement	2007
Harold Hanser	Federal Judicial System	2009
Rick Kirn	Local Elected Officials	2007
Dwight Mackay	General Public	2007
Mike McGrath	Attorney General	2009
Brad Newman	Local Law Enforcement	2009
Jim Oppedahl	General Public	2007
Steve Rice	Faith Based Organizations and Chair of the Youth Justice Council	2007
Godfrey Saunders	Education System	2009
Bonnie Wallem	Juvenile Crime and Prevention Non-Profit Community Organizations	2009

## **Elected, Appointed, and Administrative Officials**

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### **Youth Justice Council**

		Term Expires <u>August 15</u>
Pam Kennedy, Chair	Local Government	2007
Dale Four Bear	Juvenile Justice	
	Incarceration Alternatives	2007
Honorable Pedro R. Hernandez	Judicial System	2007
Penny Kipp	Youth and Families with Special Needs	2007
Jennifer Kistler	Youth at Large	2007
Ted Lechner	Volunteers in Juvenile Justice System	2007
Father Jerry Lowney	Education	2007
Joy Mariska	Juvenile Probation	2007
Rick Robinson	Juvenile Prevention/ Native American Tribes	2007
Reuben Runsabove	Youth at Large	2007
Wayne Stanford	Education	2007
Donnalyn Stangeowl	Youth at Large	2007
Bonnie Wallem	Juvenile Crime and Prevention Non-profit Community Organizations	2007
Katie Yother	Youth at Large	2007
Terri Young	Juvenile Parole	2007

For additional information concerning the Department of Justice, contact:

Robert 'Skip' Culver, Central Services Division Administrator  
 303 N Roberts  
 PO Box 201404  
 Helena MT 59620-1404  
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### Department of Justice

This report documents the results of our financial-compliance audit of the Department of Justice (department) for the two fiscal years ended June 30, 2006. The previous audit report contained four recommendations. Of these, three were implemented and one was partially implemented.

This report contains five recommendations. The issues discussed in this report include inadequate controls over motor vehicle revenues received by county collection reports, timeliness of revenues received by Montana Interactive, Inc., accounting for Montana Law Enforcement Academy revenues, Youth Detention Facility expenditures, and Construction Work-In-Progress assets, compliance with state laws, and timeliness of cash deposits.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

#### Recommendation #1

We recommend the department implement procedures to ensure motor vehicle revenues received from counties are reasonable..... 6

Department Response: Concur. See page B-3.

#### Recommendation #2

We recommend the department work with the Department of Administration, as needed, to modify remittance terms for Montana Interactive, Inc. collections to comply with state deposit law. .... 7

Department Response: Concur. See page B-3.



## Report Summary

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### Recommendation #3

We recommend the department properly account for Montana Law Enforcement Academy revenues, Youth Detention Facility expenditures and Construction Work-In-Progress assets in accordance with state law and policy..... 8

Department Response: Concur. See page B-4.

### Recommendation #4

We recommend the department:

- A. Implement procedures to ensure compliance with laws related to revoked license plates, back taxes, military draft registration requirements, and distribution of motor vehicle revenues.
- B. Adopt rules for laws related to sale of driver's license receipts, generic specialty license plates, and specialty motorcycle and quadricycle license plates as required by state law. .... 11

Department Response: Concur. See page B-4.

### Recommendation #5

We recommend the department implement procedures to deposit collections timely as required by state law. .... 12

Department Response: Concur. See page B-5.

# Introduction

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## Introduction

We performed a financial-compliance audit of the Department of Justice (department) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
3. Determine if the department's financial schedules fairly present the results of operations for the two fiscal years ended June 30, 2006.
4. Determine the implementation status of prior audit recommendations.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report. Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in this report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we analyzed the rates charged and fund equity in the department's Internal Service Fund. The Internal Service Fund contains the Agency Legal Services Bureau. Our audit work indicates the current rates are commensurate with costs and the fund equity balance should no longer be negative by fiscal year-end 2006-07.

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## Background

The Attorney General, who is elected to serve a four-year term, heads the department. The department's primary functions are to provide effective statewide law enforcement, legal services, and improve public safety.

The Board of Crime Control (board) is attached to the department for administrative purposes. The board is composed of 18 members appointed by the Governor and confirmed by the Senate. The board's

## Introduction

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operations are presented in the department's financial schedules as the Justice System Support Service Program.

The Youth Justice Advisory Council (council) was established by Executive Order. The council is responsible for administration and implementation of the federal Juvenile Justice and Delinquency Prevention Act of 1974. The council also advises the governor, the board, and the legislature on policy matters and legislation related to juvenile justice, juvenile delinquency, and compliance with federal regulations. The council's operations are also presented in the department's financial schedules as part of the Justice System Support System Program.

The department's divisions are described below.

**Legal Services** (80.25 FTE) – provides legal research and analysis for the Attorney General; legal counsel for state government and state officials, bureaus, and boards; legal assistance to local governments; legal assistance, training, and support for county prosecutors; assistance through the office of Consumer Protection and Victim Services and legal advice and support for all state agencies. The Consumer Protection Program moved from the Department of Administration to the Department of Justice at the start of fiscal year 2005-06. The Natural Resource Damage Litigation Program, which conducts litigation of claims arising from damages to natural resources in the Clark Fork River Basin between Butte and Milltown, operates in this division. It is attached to the department for administrative purposes.

**Gambling Control** (43.5 FTE) – licenses and regulates gambling activities and enforces gambling laws in the state of Montana. The division collects license fees, gambling taxes, and investigates applications and complaints relating to alcoholic beverage licensing.

**Motor Vehicle** (155 FTE) – licenses individual and commercial drivers; administers all driver license records, suspensions, revocations, and reinstatement actions including court-ordered

suspensions and revocations; provides probationary driver licenses and driver license reinstatements; investigates special driver licensing problems; issues identification cards; issues motor vehicle registrations and titles; investigates motor vehicle titling and registration fraud; files and releases liens on motor vehicles; licenses and controls motor vehicle dealers; inspects and verifies vehicle identification numbers and provides training for county treasurers, motor vehicle dealers and financial institutions. The Motor Vehicle Division (MVD) includes the Title and Registration Bureau in Deer Lodge and 49 driver licensing offices located statewide, as well as business partnerships with each of the 56 counties, the state's information portal provider Montana Interactive, Inc. (MII), and numerous private and governmental entities.

**Highway Patrol** (267.17 FTE) – enforces commercial vehicle regulations and general traffic laws, investigates accidents and auto thefts, inspects vehicles, and provides motorist assistance.

**Criminal Investigation** (80.58 FTE) – includes the administration, management, and coordination of criminal investigative services and training performed by the Investigations Bureau, the Narcotics Bureau, and the Law Enforcement Academy Bureau. Investigators conduct criminal investigations of homicide, fraud, robbery, assault, corruption, arson, organized crime, computer crime, dangerous drug activity, and other felony crimes.

**Central Services** (17.5 FTE) – provides centralized accounting, administrative, budgetary, personnel, payroll, and fiscal support for the department. The division also oversees the County Attorney Payroll Program.

**Information Technology Services** (54 FTE) – provides a full range of services for the Department of Justice and the criminal justice community. The division maintains several statewide criminal justice systems, including the state criminal history records system and the state criminal justice information network, that link law enforcement agencies in Montana with various state, regional and

## Introduction

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national criminal justice databases. It also maintains several noncriminal justice computer systems, including the Vehicle Title and Registration System and the Driver Control System. The division provides project management for the Criminal Justice Information Services Project and the Motor Vehicle Information Technology System Project.

**Forensic Sciences** (30.75 FTE) – performs scientific analyses of evidence submitted by law enforcement officials, coroners, and state agencies and promotes forensic science training and scientific criminal investigations in the state and manages a statewide system of death investigations.

**Crime Control Division** (17 FTE) – prepares and implements an annual plan for strengthening Montana’s criminal and juvenile justice systems. The division provides support services to criminal justice agencies such as peace officer certification, data collection, and research. The division is also responsible for the administration of various state and federal programs to help reduce crime and provide victim assistance and support.

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## Prior Audit Recommendations

Our office performed the department’s financial-compliance audit for the two fiscal years ended June 30, 2004. The report contained four recommendations. The department implemented three recommendations and partially implemented one.

The recommendation partially implemented recommended the department record expenditures according to state law. Refer to page 8 for discussion regarding Youth Detention Facility expenditures.

# Findings and Recommendations

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## Motor Vehicle Revenues

**The department's Motor Vehicle Division receives approximately \$115 million in revenue annually from County Collection Reports and does not have controls to ensure its revenues are reasonable.**

The Department of Justice is responsible for collecting revenues related to motor vehicle licenses, registrations, and fees. A large portion of these revenues are collected by county offices and come to the state, through the Department of Revenue, on county collection reports. By law, the counties submit county collection reports to the Department of Revenue each month. The Department of Revenue records motor vehicle revenues on the state's accounting system for the Department of Justice. The Department of Justice received approximately \$112 million and \$117 million, or over 90 percent of total Licenses and Permits revenue in fiscal years 2004-05 and 2005-06 on county collection reports. The Department of Justice does not have procedures to ensure the amounts reported on county collection reports are reasonable.

We tested one county collection report in each fiscal year and found the reports contained errors. Many of the motor vehicle fees are flat fees. We divided the fee amount by the total collections reported on the county collection report and found the total was not divisible by the fee on 9 out of 78 line items tested on the report in fiscal year 2004-05, and 12 out of 80 line items tested in fiscal year 2005-06.

Motor Vehicle Division (MVD) staff indicated they rely on the Central Services Division (CSD) to perform revenue projections and on the Department of Revenue to ensure accuracy and completeness, since the revenues are received by them. The department does not perform revenue projections, but instead prepare a comparison of the current and prior month's revenue. The Department of Revenue does not verify the accuracy or completeness of motor vehicle revenues. The MVD maintains vehicle registration records and owns the revenue. Reasonableness of vehicle registration revenues should be determined by the MVD. The MVD stated controls included

## Findings and Recommendations

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providing training and support to the county offices during fiscal years 2004-05 and 2005-06. However, this does not appear to be adequate, as there are errors on the county collection reports that cannot be explained.

The amounts recorded on the county collection reports are a major source of revenue for the department. The department should have controls in place to ensure its revenues are complete and accurate, which requires monitoring of the county collection reports.

### **Recommendation #1**

**We recommend the department implement procedures to ensure motor vehicle revenues received from counties are reasonable.**

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### **Revenues Received by Montana Interactive, Inc.**

**The department receives over \$3 million annually, from Montana Interactive, Inc. (MII) but does not receive its revenues timely, in accordance with state deposit laws.**

The Department of Justice receives over \$3 million in revenues from Montana Interactive, Inc. (MII). These fees are paid by customers accessing motor vehicle records through a computer system maintained by MII. In June 2006, our office released a performance audit report (06P-08), which made several recommendations for enhancing management controls over the provision of e-services. This report discusses deposit of state funds received through MII.

The performance audit (06P-08) stated the Department of Justice received \$3,396,139 in payments processed by MII in calendar year 2005. These revenues were remitted to the state on a monthly basis. Section 17-6-105(6), MCA, requires all money to be deposited, either with the state treasurer, or in a depository approved by the state treasurer each day when the accumulated amount of coin and currency requiring deposit exceeds \$100, total collections exceed \$500, or at least weekly. The state loses investment earnings because of the delay in receiving moneys collected by MII. Because MII is acting as

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## Findings and Recommendations

the state's agent when collecting these revenues, the statutory deposit requirements apply to the collections when received by MII. The performance audit estimated between \$6,000 and \$10,000 was lost in interest earnings to the state in fiscal year 2004-05.

The Department of Administration contracts with MII to process these customer requests and payments. Each type of service provided as part of the e-government services contract has a separate work order. State agencies can specify remittance provisions as part of the work order. Some of the work orders contained remittance provisions and others did not. The work orders that contained remittance provisions required monthly remittance. Department personnel who were involved with accounting-related matters for MII services did not consider timely depositing laws when establishing the remittance requirements under its work order.

### **Recommendation #2**

**We recommend the department work with the Department of Administration, as needed, to modify remittance terms for Montana Interactive, Inc. collections to comply with state deposit law.**

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## Accounting Errors

**The department did not properly account for Montana Law Enforcement Academy revenues, Youth Detention Facility expenditures, and Construction Work-In-Progress assets.**

Section 17-1-102 (2), MCA, requires the Department of Administration to prescribe and install a uniform accounting and reporting system for all state agencies and institutions reporting the receipt, use, and disposition of all public money and property, in accordance with generally accepted accounting principles. The Department of Administration issues state accounting policies to implement this state law. We reviewed various programs and activities of the department and noted accounting errors which resulted in noncompliance with state law and policy. This report



## Findings and Recommendations

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section identifies areas where transactions recorded by the department resulted in misstatements on the accounting records.

- State law requires all courts of limited jurisdiction, except small claims courts, impose a \$10 surcharge on a defendant who is convicted of criminal conduct. The revenues received from this surcharge support the Montana Law Enforcement Academy. In fiscal years 2004-05 and 2005-06, the department recorded the revenue as Fines, Forfeits, and Settlements. Section 3-1-317(3), MCA, states “The surcharge imposed by this section is not a fee or fine and must be imposed in addition to other taxable court costs, fees, or fines.” Based on our interpretation of state accounting policy, this fee should be recorded as miscellaneous revenue. As a result, Fines, Forfeits, and Settlements revenue is overstated by \$1,006,874 and \$975,433 and Miscellaneous revenue is understated by the same amounts during fiscal years 2004-05 and 2005-06, respectively.
- The Crime Control Division recorded state grants paid to Youth Detention Facilities, totaling \$904,559, as federal grants in fiscal year 2006. As a result, Grants from Federal Sources is overstated and Grants from State Sources is understated by \$904,559 on the Schedule of Expenditures & Transfers-Out. Board personnel stated expenditures were mistakenly coded to the wrong account.
- During the audit period, the department was required by state accounting policy to record an asset on the state’s accounting system for construction projects that are in progress but not fully complete at fiscal year-end. At fiscal year-end 2005-06, the department had two construction projects in progress and not fully complete. Department personnel did not record assets for approximately \$3 million related to these projects on the state’s accounting system as construction work in progress, as required by state policy. These transactions are necessary to facilitate the Department of Administration’s preparation of the state of Montana’s Basic Financial Statements in accordance with Governmental Accounting Standard Board Statement No. 34.

### **Recommendation #3**

**We recommend the department properly account for Montana Law Enforcement Academy revenues, Youth Detention Facility expenditures and Construction Work-In-Progress assets in accordance with state law and policy.**

## Findings and Recommendations

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### State Compliance

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**The department is not in compliance with the state laws related to: revoked license plates, back taxes, military draft registration requirements, distribution of motor vehicle revenues, and adoption of rules.**

During our current audit of the department, we tested approximately 105 statutes related to motor vehicles. The department is responsible for administering and enforcing motor vehicle statutes. We noted the following seven instances of noncompliance with state law.

Section 61-6-304, MCA, requires the revocation of license plates from registered motorists who twice or more fail to provide proof of liability insurance. It also requires the department to return the revoked plates to the offender upon the offender providing proof of liability insurance. The department does not return the confiscated license plates, but rather issues a new license plate. Department personnel stated it is more efficient to have the court system simply dispose of the plates and issue a new plate upon proof of insurance.

Section 61-3-503, MCA, requires the department to collect back taxes on motor vehicles that are not registered every year. The 2005 legislative session changed the process used for collection of motor vehicle registration fees, including the elimination of back taxes. Department personnel indicated other registration laws were changed and this particular law was overlooked.

Section 61-5-126, MCA, requires the department to provide, at the request of the director of the selective service system, a list of persons born in specified years who are holders of drivers' licenses for the exclusive purpose of ensuring compliance with the military draft registration requirements of the federal Military Selective Service Act. In addition, the department is required to notify the persons that information regarding them was released to the selective service system. In fiscal year 2005-06, the department received a request to provide a list of persons born in specified years who are holders of drivers' licenses. The department did not notify individuals upon the release of this information. Department personnel stated they do not have staff resources available to notify individuals.

Section 61-5-121, MCA, requires the department to distribute various motor vehicle revenues between General and State Special Revenue funds. The department did not distribute

## Findings and Recommendations

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these revenues in accordance with state law. Department personnel stated there was a miscommunication between staff when this section of law changed during the 2005 legislative session. In fiscal year 2004-05, motor vehicle revenues in the General Fund were overstated by \$159,951 and understated by the same amount in the State Special Revenue funds. In fiscal year 2005-06, motor vehicle revenues in the General Fund were understated by \$87,812 and overstated by the same amount in the State Special Revenue funds.

Section 61-5-111, MCA, allows the department to appoint county treasurers to act as agents for the sales of driver's license receipts and requires the adoption of rules governing those sales. The department was unaware that its current administrative rules did not cover the sale of driver's license receipts. Department personnel stated they have a manual outlining the procedures and provide training to the counties to ensure compliance with the manual. With appointed agents working outside of state government, it is important to adopt rules governing the sales of driver's license receipts.

Section 61-3-474, MCA, requires the department to adopt rules prescribing the general layout and design criteria for generic specialty license plates. Department personnel state they have produced guidelines for the generic specialty license plates and include them in their generic specialty plate application packets. However, they have not adopted administrative rules, which would ensure similar treatment to all generic specialty license plates.

Section 61-3-415, MCA, is related to specialty motorcycle or quadricycle license plates. A portion of the money collected will be used to provide grants to nonprofit organizations that grant wishes to Montana children who are ill. State law requires the department to adopt rules to identify the entity or entities that may qualify for grants under this section and to establish criteria that an entity must meet to receive grant funds. The department has not approved a final design for the license plate and has not awarded any grants so the rules have not been needed. By adopting rules, as required by state law, the department would provide consistent guidance to entities that will compete for the grants.

## Findings and Recommendations

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### **Recommendation #4**

**We recommend the Department:**

- A. Implement procedures to ensure compliance with laws related to revoked license plates, back taxes, military draft registration requirements, and distribution of motor vehicle revenues.**
- B. Adopt rules for laws related to sale of driver's license receipts, generic specialty license plates, and specialty motorcycle and quadricycle license plates as required by state law.**

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### **Timeliness of Cash Deposits**

**We identified two additional instances of noncompliance with the state deposit law in the Motor Vehicle Division.**

Section 17-6-105, MCA, requires state agencies to deposit collections daily when coin and currency exceed \$100 and when all collections (coin, currency and checks) exceed \$500. State law further requires all money collected to be deposited at least weekly. In addition to audit Recommendation #2 on page 7 of the audit report, we identified the following two instances of noncompliance with the state deposit law in the MVD.

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### **Title and Registration Bureau**

The Title and Registration Bureau in Deer Lodge collects a fee of \$4,000 for each generic specialty license plate that is designed and placed into production. These fees are intended to offset the license plate startup production costs for the Department of Corrections (DOC) and are delivered to DOC for deposit after the applicable license plate sponsor's application has been completed. Several days pass between the receipt of the sponsor's fee check and completion of the sponsor's application. During this time, the sponsor's fee check is kept in a locked file cabinet at the Bureau. The department had 19 new license plate designs approved and placed in use during the audit period, 11 in fiscal year 2004-05 and eight in 2005-06. Department personnel stated sponsors sometimes send in their checks before the application process is completed, and they want to minimize the risk of having to issue a refund if the application is not approved.

## Findings and Recommendations

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### Driver's License Station

The Kalispell Driver's License station receives approximately \$2,500 to \$3,000 in total collections daily. The collections are not deposited until the following afternoon. The deposits are kept at the local bank overnight, but are brought back to the station in the morning by department employees. These deposits are then used to make change for the current day's collections. Driver's License Station personnel indicated that the previous day's collections are needed to make change for the current day's collections because the startup money that each station clerk starts the day with is not sufficient.

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### Summary

The department is not adequately safeguarding its assets in accordance with state law. When funds are not deposited timely, there is the potential for theft or loss to occur. In addition, the state loses interest each day money is not deposited in the state treasury.

Department personnel at the Helena Motor Vehicle Division central office stated they do not approve of these practices, and there was a miscommunication with local offices. The department should implement procedures to collect fees upon approval of the application process and, if necessary, increase the amount of startup money for each clerk at Driver's License Stations, where needed, to ensure compliance with state law. The Motor Vehicle Division central office should also communicate and monitor those procedures to prevent practices from occurring that are not approved by the department.

#### **Recommendation #5**

**We recommend the department implement procedures to deposit collections timely as required by state law.**

# **Independent Auditor's Report & Department Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Justice for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Justice for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

August 21, 2006





DEPARTMENT OF JUSTICE  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund
FUND BALANCE: July 1, 2005	\$ 20,733,051	\$ 170,334,147	\$ 116,178	\$ 241,606	\$ (138,013)	\$ (69,833)
ADDITIONS						
Budgeted Revenues & Transfers-In	180,670,639	16,992,677	13,032,008		32,688	1,182,562
NonBudgeted Revenues & Transfers-In	1,182,881	3,710,902	1,533	3,875,565	267	34
Prior Year Revenues & Transfers-In Adjustments	(1,291,835)	67,330	2,613			
Direct Entries to Fund Balance	(155,318,544)	22,251,956	(27,823)		856,259	
Total Additions	25,243,141	43,022,865	13,008,331	3,875,565	889,214	1,182,596
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	24,537,839	33,785,249	12,993,663	3,970,936	1,021,198	1,154,276
NonBudgeted Expenditures & Transfers-Out	397,030	12,421,486			953	(2,110)
Prior Year Expenditures & Transfers-Out Adjustments	32,091	(37,588)	(24,253)		638	97
Total Reductions	24,966,960	46,169,147	12,969,410	3,970,936	1,022,789	1,152,263
FUND BALANCE: June 30, 2006	\$ 21,009,232	\$ 167,187,865	\$ 155,099	\$ 146,235	\$ (271,588)	\$ (39,500)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF JUSTICE  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
FUND BALANCE: July 1, 2004	\$ <u>18,841,410</u>	\$ <u>166,720,533</u>	\$ <u>28,013</u>	\$ <u>378,363</u>	\$ <u>(156,687)</u>	\$ <u>(86,294)</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	174,145,523	13,638,385	15,040,446		18,422	1,111,165
NonBudgeted Revenues & Transfers-In	3,801,200	12,837,881	3,826	5,231,395	195	36
Prior Year Revenues & Transfers-In Adjustments	523,308	620,592	81,433			
Direct Entries to Fund Balance	<u>(146,871,132)</u>	<u>21,737,416</u>	<u>49,504</u>		<u>795,698</u>	
Total Additions	<u>31,598,899</u>	<u>48,834,274</u>	<u>15,175,209</u>	<u>5,231,395</u>	<u>814,315</u>	<u>1,111,201</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	29,577,127	31,420,004	15,031,915	5,368,643	786,183	1,095,038
NonBudgeted Expenditures & Transfers-Out	89,593	13,768,542	14,831	(491)	9,258	(337)
Prior Year Expenditures & Transfers-Out Adjustments	<u>40,538</u>	<u>32,114</u>	<u>40,298</u>		<u>200</u>	<u>39</u>
Total Reductions	<u>29,707,258</u>	<u>45,220,660</u>	<u>15,087,044</u>	<u>5,368,152</u>	<u>795,641</u>	<u>1,094,740</u>
FUND BALANCE: June 30, 2005	\$ <u><u>20,733,051</u></u>	\$ <u><u>170,334,147</u></u>	\$ <u><u>116,178</u></u>	\$ <u><u>241,606</u></u>	\$ <u><u>(138,013)</u></u>	\$ <u><u>(69,833)</u></u>

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DEPARTMENT OF JUSTICE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits	\$ 115,198,633	\$ 11,897,027			\$ 5,162		\$ 127,100,822
Taxes	57,433,739	23,454	\$ 1,530	\$ 75	267	\$ 34	57,459,099
Charges for Services	3,206,850	2,914,587			27,526	1,182,562	7,331,525
Investment Earnings		1,184,973	52,204				1,237,177
Fines, Forfeits and Settlements	2,889,561	4,344,972					7,234,533
Sale of Documents, Merchandise and Property	352,875	9,037					361,912
Miscellaneous	217,952	232,335					450,287
Other Financing Sources	1,184,138	164,522		3,875,490			5,224,150
Federal			12,982,420				12,982,420
Federal Indirect Cost Recoveries	77,937						77,937
Total Revenues & Transfers-In	180,561,685	20,770,907	13,036,154	3,875,565	32,955	1,182,596	219,459,862
Less: Nonbudgeted Revenues & Transfers-In	1,182,881	3,710,900	1,533	3,875,565	267	34	8,771,180
Prior Year Revenues & Transfers-In Adjustments	(1,291,835)	67,330	2,613				(1,221,892)
Actual Budgeted Revenues & Transfers-In	180,670,639	16,992,677	13,032,008	0	32,688	1,182,562	211,910,574
Estimated Revenues & Transfers-In	180,748,555	13,710,420	19,575,901		34,200	1,190,000	215,259,076
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (77,916)	\$ 3,282,257	\$ (6,543,893)	\$ 0	\$ (1,512)	\$ (7,438)	\$ (3,348,502)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits	\$ (22,851)	\$ 3,371,916			\$ (938)		\$ 3,348,127
Taxes	(12,184)	(1,000)					(13,184)
Charges for Services	(19,242)	(45,644)			(574)	\$ (7,438)	(72,898)
Investment Earnings			\$ 24,999				24,999
Fines, Forfeits and Settlements	(12,671)	(22,437)					(35,108)
Sale of Documents, Merchandise and Property	(1,288)	(963)					(2,251)
Miscellaneous	(7,060)	(14,137)					(21,197)
Other Financing Sources	(372)	(5,478)					(5,850)
Federal			(6,568,392)				(6,568,392)
Federal Indirect Cost Recoveries	(2,248)		(500)	\$			(2,748)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (77,916)	\$ 3,282,257	\$ (6,543,893)	\$ 0	\$ (1,512)	\$ (7,438)	\$ (3,348,502)

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DEPARTMENT OF JUSTICE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$ 114,359,476	\$ 10,373,488					\$ 124,732,964
Taxes	52,586,740	44,885	\$ 4,009	\$ 147	\$ 195	\$ 36	52,636,012
Charges for Services	3,243,737	2,485,717			18,422	1,111,165	6,859,041
Investment Earnings		12,761,374	13,178				12,774,552
Fines, Forfeits and Settlements	3,868,062	1,067,888					4,935,950
Sale of Documents, Merchandise and Property	284,675						284,675
Miscellaneous	230,772	188,985					419,757
Other Financing Sources	3,798,970	174,521		5,231,248			9,204,739
Federal			15,009,346				15,009,346
Federal Indirect Cost Recoveries	97,599		99,172				196,771
Total Revenues & Transfers-In	<u>178,470,031</u>	<u>27,096,858</u>	<u>15,125,705</u>	<u>5,231,395</u>	<u>18,617</u>	<u>1,111,201</u>	<u>227,053,807</u>
Less: Nonbudgeted Revenues & Transfers-In	3,801,200	12,837,881	3,826	5,231,395	195	36	21,874,533
Prior Year Revenues & Transfers-In Adjustments	523,308	620,592	81,433				1,225,333
Actual Budgeted Revenues & Transfers-In	<u>174,145,523</u>	<u>13,638,385</u>	<u>15,040,446</u>	<u>0</u>	<u>18,422</u>	<u>1,111,165</u>	<u>203,953,941</u>
Estimated Revenues & Transfers-In	<u>174,204,221</u>	<u>13,193,817</u>	<u>20,577,019</u>		<u>19,500</u>	<u>1,111,500</u>	<u>209,106,057</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (58,698)</u>	<u>\$ 444,568</u>	<u>\$ (5,536,573)</u>	<u>\$ 0</u>	<u>\$ (1,078)</u>	<u>\$ (335)</u>	<u>\$ (5,152,116)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$ (8,764)	\$ (32,019)			\$ (1,000)		\$ (41,783)
Taxes	(13,333)	(1,302)					(14,635)
Charges for Services	(26,335)	(10,274)			(78)	(335)	(37,022)
Investment Earnings			\$ (65,822)				(65,822)
Fines, Forfeits and Settlements	(8,536)	495,571					487,035
Sale of Documents, Merchandise and Property	(1,133)						(1,133)
Miscellaneous	(188)	(3,916)					(4,104)
Other Financing Sources	(8)	(3,492)	(2,500)				(6,000)
Federal			(5,467,223)				(5,467,223)
Federal Indirect Cost Recoveries	(401)		(1,028)	\$			(1,429)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (58,698)</u>	<u>\$ 444,568</u>	<u>\$ (5,536,573)</u>	<u>\$ 0</u>	<u>\$ (1,078)</u>	<u>\$ (335)</u>	<u>\$ (5,152,116)</u>

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DEPARTMENT OF JUSTICE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agency Legal Services	Central Services Division	County Attorney Payroll	Division of Criminal Investigation	Forensic Science Division	Gambling Control Division	Highway Patrol Division	Information Technology Service	Justice System Support Service	Legal Services Division	Motor Vehicle Division	Office of Consumer Protection	Total
Personal Services													
Salaries	\$ 713,819	\$ 604,247	\$ 1,653,182	\$ 3,200,561	\$ 1,462,219	\$ 1,755,857	\$ 9,503,408	\$ 1,910,264	\$ 637,341	\$ 2,796,694	\$ 3,796,482	\$ 272,343	\$ 28,306,417
Other Compensation							127	1,000	3,400				4,527
Employee Benefits	205,529	183,307	259,405	1,064,110	402,467	542,036	5,020,047	563,984	200,110	774,779	1,707,534	79,066	11,002,374
Personal Services-Other	141,835	(143,992)				953							(1,204)
Total	<u>1,061,183</u>	<u>643,562</u>	<u>1,912,587</u>	<u>4,264,671</u>	<u>1,864,686</u>	<u>2,298,846</u>	<u>14,523,582</u>	<u>2,475,249</u>	<u>840,851</u>	<u>3,571,473</u>	<u>5,504,016</u>	<u>351,409</u>	<u>38,312,114</u>
Operating Expenses													
Other Services	99,070	71,405		964,035	221,110	636,308	1,506,379	1,053,448	274,363	7,549,351	6,491,923	37,340	18,904,732
Supplies & Materials	20,655	10,678		650,650	284,522	89,830	1,848,909	369,255	94,103	86,062	361,290	3,687	3,819,641
Communications	16,334	11,311		118,467	43,230	69,791	350,542	60,424	44,037	83,103	812,732	11,578	1,621,549
Travel	4,387	276		201,731	60,756	63,927	506,672	25,054	104,139	128,810	84,765	16,561	1,197,079
Rent	60,193	51,248		273,471	565,400	196,836	398,113	89,395	76,771	190,532	583,373	8,365	2,493,697
Utilities				107,293	24,425	7	9,359	552		32	26,337		168,005
Repair & Maintenance	4,130	3,110		124,230	73,012	24,734	544,341	286,022	254	30,683	99,440	581	1,190,537
Other Expenses	8,098	9,077		155,297	98,558	7,382	116,487	64,977	38,502	119,504	56,583	3,922	678,387
Total	<u>212,867</u>	<u>157,105</u>		<u>2,595,174</u>	<u>1,371,013</u>	<u>1,088,815</u>	<u>5,280,802</u>	<u>1,949,127</u>	<u>632,169</u>	<u>8,188,077</u>	<u>8,516,442</u>	<u>82,034</u>	<u>30,073,626</u>
Equipment & Intangible Assets													
Equipment				112,916	138,781	193,411	1,784,017	87,580	6,790	11,435	90,360		2,425,290
Capital Leases					10,274								10,274
Installment Purchases					386,938								386,938
Total				<u>112,916</u>	<u>535,993</u>	<u>193,411</u>	<u>1,784,017</u>	<u>87,580</u>	<u>6,790</u>	<u>11,435</u>	<u>90,360</u>		<u>2,822,502</u>
Capital Outlay													
Land & Interest In Land										1,491,586			1,491,586
Total										<u>1,491,586</u>			<u>1,491,586</u>
Local Assistance													
From State Sources							2,037,006						2,037,006
Total							<u>2,037,006</u>						<u>2,037,006</u>
Grants													
From Federal Sources							1,632,342		7,561,265				9,193,607
Total							<u>1,632,342</u>		<u>7,561,265</u>				<u>9,193,607</u>
Benefits & Claims													
To Individuals										903,700			903,700
Total										<u>903,700</u>			<u>903,700</u>
Transfers													
Accounting Entity Transfers							781,063			(1,040,497)	3,875,490	19,045	3,635,101
Total							<u>781,063</u>			<u>(1,040,497)</u>	<u>3,875,490</u>	<u>19,045</u>	<u>3,635,101</u>
Debt Service													
Loans				3,273						85,333	445,331		533,937
Installment Purchases				42,324	89,854	4,877					111,272		248,327
Total				<u>45,597</u>	<u>89,854</u>	<u>4,877</u>				<u>85,333</u>	<u>556,603</u>		<u>782,264</u>
Total Expenditures & Transfers-Out	\$ <u>1,274,050</u>	\$ <u>800,667</u>	\$ <u>1,912,587</u>	\$ <u>7,018,358</u>	\$ <u>3,861,546</u>	\$ <u>5,622,955</u>	\$ <u>24,001,806</u>	\$ <u>4,511,955</u>	\$ <u>9,041,075</u>	\$ <u>13,211,107</u>	\$ <u>18,542,912</u>	\$ <u>452,488</u>	\$ <u>90,251,506</u>
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund		\$ 341,199	\$ 1,912,587	\$ 3,610,861	\$ 3,272,308	\$ (2,001)	\$ 813,429	\$ 3,020,356	1,721,942	\$ 4,524,601	\$ 5,751,470	\$ 208	\$ 24,966,960
State Special Revenue Fund		546,399		1,767,761	303,204	4,661,403	20,703,830	1,420,359	9,348	8,125,451	8,179,113	452,280	46,169,148
Federal Special Revenue Fund		67		1,639,736	286,034		2,484,547	57,919	7,309,785	561,055	630,267		12,969,410
Capital Projects Fund											3,970,936		3,970,936
Enterprise Fund		41,309				963,553		6,801			11,126		1,022,789
Internal Service Fund	\$ <u>1,274,050</u>	<u>(128,307)</u>						<u>6,520</u>					<u>1,152,263</u>
Total Expenditures & Transfers-Out	<u>1,274,050</u>	<u>800,667</u>	<u>1,912,587</u>	<u>7,018,358</u>	<u>3,861,546</u>	<u>5,622,955</u>	<u>24,001,806</u>	<u>4,511,955</u>	<u>9,041,075</u>	<u>13,211,107</u>	<u>18,542,912</u>	<u>452,488</u>	<u>90,251,506</u>
Less: Nonbudgeted Expenditures & Transfers-Out	141,882	(143,992)		(527)	397,212	953	781,063		(182)	7,647,786	3,974,120	19,045	12,817,360
Prior Year Expenditures & Transfers-Out Adjustments	97	67		2,224	(404)	196	(26,992)	25,875	(23,858)	417	(6,636)		(29,014)
Actual Budgeted Expenditures & Transfers-Out	<u>1,132,071</u>	<u>944,592</u>	<u>1,912,587</u>	<u>7,016,661</u>	<u>3,464,738</u>	<u>5,621,806</u>	<u>23,247,735</u>	<u>4,486,080</u>	<u>9,065,115</u>	<u>5,562,904</u>	<u>14,575,428</u>	<u>433,443</u>	<u>77,463,160</u>
Budget Authority	1,359,083	1,670,116	1,912,588	7,913,150	4,094,450	8,005,584	26,213,261	6,371,870	24,484,330	9,739,227	25,873,091	434,020	118,070,770
Unspent Budget Authority	\$ <u>227,012</u>	\$ <u>725,524</u>	\$ <u>1</u>	\$ <u>896,489</u>	\$ <u>629,712</u>	\$ <u>2,383,778</u>	\$ <u>2,965,526</u>	\$ <u>1,885,790</u>	<u>15,419,215</u>	\$ <u>4,176,323</u>	\$ <u>11,297,663</u>	\$ <u>577</u>	\$ <u>40,607,610</u>
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund		\$ 133,908	\$ 1	\$ 22,607	\$ 22,621		\$ 74,194	\$ 44	18,054	425,372	\$ 276,231	\$ 576	\$ 973,608
State Special Revenue Fund		344,716		87,174		2,065,660	1,777,631	434,049	84,135	579,697	1,094,861	1	6,467,924
Federal Special Revenue Fund		246,095		786,708	607,091		1,113,701	1,451,697	15,317,026	3,171,254	1,218,236		23,911,808
Capital Projects Fund											8,406,962		8,406,962
Enterprise Fund		805				318,118					301,373		620,296
Internal Service Fund	\$ <u>227,012</u>												<u>227,012</u>
Unspent Budget Authority	\$ <u>227,012</u>	\$ <u>725,524</u>	\$ <u>1</u>	\$ <u>896,489</u>	\$ <u>629,712</u>	\$ <u>2,383,778</u>	\$ <u>2,965,526</u>	\$ <u>1,885,790</u>	\$ <u>15,419,215</u>	\$ <u>4,176,323</u>	\$ <u>11,297,663</u>	\$ <u>577</u>	\$ <u>40,607,610</u>

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DEPARTMENT OF JUSTICE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agency Legal Services	Central Services Division	County Attorney Payroll	Division of Criminal Investigation	Forensic Science Division	Gambling Control Division	Highway Patrol Division	Information Technology Services	Justice System Support Service	Legal Services Division	Motor Vehicle Division	Total
Personal Services												
Salaries	\$ 678,058	\$ 681,073	\$ 1,507,452	\$ 2,885,769	\$ 1,316,020	\$ 1,630,506	\$ 11,932,259	\$ 2,191,713	\$ 667,483	\$ 2,739,475	\$ 3,664,040	\$ 29,893,848
Hourly Wages											61	61
Other Compensation							100		1,475			1,575
Employee Benefits	193,187	183,047	236,103	948,112	355,684	510,604	5,576,767	652,050	204,954	744,324	1,672,157	11,276,989
Personal Services-Other	(143,919)	143,992				9,798						9,871
Total	<u>727,326</u>	<u>1,008,112</u>	<u>1,743,555</u>	<u>3,833,881</u>	<u>1,671,704</u>	<u>2,150,908</u>	<u>17,509,126</u>	<u>2,843,763</u>	<u>873,912</u>	<u>3,483,799</u>	<u>5,336,258</u>	<u>41,182,344</u>
Operating Expenses												
Other Services	113,517	82,380		999,530	126,386	157,878	6,997,265	5,130,904	119,600	3,712,297	2,448,366	19,888,123
Supplies & Materials	9,141	7,804		509,725	267,445	53,530	1,589,757	430,217	50,336	46,869	472,861	3,437,685
Communications	17,952	9,452		135,871	25,767	67,096	382,942	136,578	26,119	82,275	823,981	1,708,033
Travel	5,481	335		182,385	38,058	52,283	503,884	270,848	58,746	113,930	84,967	1,310,917
Rent	40,567	48,460		264,881	548,375	187,569	385,790	174,884	80,823	201,310	454,898	2,387,557
Utilities				88,901	22,268		8,288	1,076			20,509	141,042
Repair & Maintenance	3,098	2,911		93,616	53,655	24,587	513,112	142,550	185	17,689	83,134	934,537
Other Expenses	10,849	2,075		154,337	28,514	15,283	146,999	147,186	32,315	109,101	32,288	678,947
Total	<u>200,605</u>	<u>153,417</u>		<u>2,429,246</u>	<u>1,110,468</u>	<u>558,226</u>	<u>10,528,037</u>	<u>6,434,243</u>	<u>368,124</u>	<u>4,283,471</u>	<u>4,421,004</u>	<u>30,486,841</u>
Equipment & Intangible Assets												
Equipment				251,524	141,287	55,379	1,581,384	11,686	5,075		20,268	2,066,603
Capital Leases						5,780						5,780
Total				<u>251,524</u>	<u>141,287</u>	<u>61,159</u>	<u>1,581,384</u>	<u>11,686</u>	<u>5,075</u>		<u>20,268</u>	<u>2,072,383</u>
Local Assistance												
From State Sources						1,981,149						1,981,149
From Federal Sources				52,216				300,000				352,216
Total				<u>52,216</u>		<u>1,981,149</u>		<u>300,000</u>				<u>2,333,365</u>
Grants												
From State Sources									904,624			904,624
From Federal Sources							177,713		8,791,089			8,968,802
Total							<u>177,713</u>		<u>9,695,713</u>			<u>9,873,426</u>
Benefits & Claims												
To Individuals										917,597		917,597
Total										<u>917,597</u>		<u>917,597</u>
Transfers												
Accounting Entity Transfers										1,040,497	8,931,248	9,971,745
Total										<u>1,040,497</u>	<u>8,931,248</u>	<u>9,971,745</u>
Debt Service												
Loans				3,951						45,211	215,432	264,594
Installment Purchases				25,396		5,543					140,261	171,200
Total				<u>29,347</u>		<u>5,543</u>				<u>45,211</u>	<u>355,693</u>	<u>435,794</u>
Total Expenditures & Transfers-Out	\$ <u>927,931</u>	\$ <u>1,161,529</u>	\$ <u>1,743,555</u>	\$ <u>6,596,214</u>	\$ <u>2,923,459</u>	\$ <u>4,756,985</u>	\$ <u>29,796,260</u>	\$ <u>9,589,692</u>	<u>10,942,824</u>	\$ <u>9,770,575</u>	\$ <u>19,064,471</u>	\$ <u>97,273,495</u>
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund		\$ 361,461	\$ 1,743,555	\$ 2,604,039	\$ 2,293,377	\$ 2,001	\$ 8,500,000	\$ 3,021,001	1,635,057	\$ 3,820,545	\$ 5,726,222	\$ 29,707,258
State Special Revenue Fund		633,100		1,528,924	303,204	3,966,022	19,807,910	1,137,289		5,171,382	12,672,829	45,220,660
Federal Special Revenue Fund				2,463,251	326,878		1,488,350	397,270	9,307,767	778,648	324,880	15,087,044
Capital Projects Fund								5,027,612			340,540	5,368,152
Enterprise Fund		6,679				788,962						795,641
Internal Service Fund	\$ 927,931	160,289						6,520				1,094,740
Total Expenditures & Transfers-Out	<u>927,931</u>	<u>1,161,529</u>	<u>1,743,555</u>	<u>6,596,214</u>	<u>2,923,459</u>	<u>4,756,985</u>	<u>29,796,260</u>	<u>9,589,692</u>	<u>10,942,824</u>	<u>9,770,575</u>	<u>19,064,471</u>	<u>97,273,495</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(144,329)	143,615	(866)	(3,394)	(930)	13,675	(15,981)	(1,354)	14,662	4,705,196	9,171,100	13,881,394
Prior Year Expenditures & Transfers-Out Adjustments	<u>39</u>	<u>(108)</u>		<u>8,686</u>	<u>3,391</u>	<u>838</u>	<u>21,107</u>	<u>79,590</u>		<u>1,524</u>	<u>(1,879)</u>	<u>113,188</u>
Actual Budgeted Expenditures & Transfers-Out	1,072,221	1,018,022	1,744,421	6,590,922	2,920,998	4,742,472	29,791,134	9,511,456	10,928,162	5,063,855	9,895,250	83,278,913
Budget Authority	1,329,182	1,623,387	1,744,422	7,398,651	3,183,322	6,135,969	34,402,532	21,756,889	19,704,305	6,034,092	17,099,350	120,412,101
Unspent Budget Authority	\$ <u>256,961</u>	\$ <u>605,365</u>	\$ <u>1</u>	\$ <u>807,729</u>	\$ <u>262,324</u>	\$ <u>1,393,497</u>	\$ <u>4,611,398</u>	\$ <u>12,245,433</u>	<u>8,776,143</u>	\$ <u>970,237</u>	\$ <u>7,204,100</u>	\$ <u>37,133,188</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund		\$ 118,884	\$ 1	\$ 4,138	\$ 6,488		\$ 54,327		15,509	\$ 10,784	\$ 281,994	\$ 492,125
State Special Revenue Fund		443,191		94,809		1,377,650	1,622,482	156,630		596,038	5,493,184	9,783,984
Federal Special Revenue Fund		43,290		708,782	255,836		2,988,916	110,850	8,760,634	363,415	974,650	14,206,373
Capital Projects Fund								11,923,626			454,272	12,377,898
Enterprise Fund						15,847						15,847
Internal Service Fund	\$ 256,961											256,961
Unspent Budget Authority	\$ <u>256,961</u>	\$ <u>605,365</u>	\$ <u>1</u>	\$ <u>807,729</u>	\$ <u>262,324</u>	\$ <u>1,393,497</u>	\$ <u>4,611,398</u>	\$ <u>12,245,433</u>	<u>8,776,143</u>	\$ <u>970,237</u>	\$ <u>7,204,100</u>	\$ <u>37,133,188</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Department of Justice

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2006

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#### 1. Summary of Significant Accounting Policies

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##### Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary fund category (Enterprise and Internal Service). Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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##### Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared



## Notes to the Financial Schedules

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from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

### **Governmental Fund Category**

**General Fund** – to account for all financial resources except those required to be accounted for in another fund. Department General Fund activities include motor vehicle and gambling activities.

**State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Highway Patrol operations, collections of gambling license revenues, Montana Law Enforcement Academy operations, Natural Resources Damage Litigation Program, Consumer Protection Program, and Motor Vehicle Information Technology System account.

**Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Federal Motor Carrier Safety, Homeland Security, Federal Crime Victims Benefits, and Medicaid Fraud Control Unit.

**Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for the costs related to developing the information technology system related to the production and maintenance of motor vehicle title and registration records and driver's license records.

### **Proprietary Fund Category**

**Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Department Internal Service Fund is for the Agency Legal Services Bureau, which provides requested legal services to other state agencies.

**Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes of similar revenues. Department Enterprise Funds include: MVD State Information Portal, MVD Electronic Commerce, and the Liquor Division, which is used to fund part of the Gambling Division's operations, and is administered by the Department of Revenue.

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### 2. General Fund Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the fiscal years ended June 30, 2006, and June 30, 2005. These balances reflect the results of the activity of the department, and not the fund balance of the statewide General Fund.

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### 3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue, and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

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### 4. Settlements Handled by the Department

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#### Natural Resource Damage Litigation Program

The Natural Resource Damage Litigation Program oversees the environmental restoration litigation in the Clark Fork River Basin. The litigation expenses were authorized by the legislature and funded with money loaned from the Coal Tax Trust Fund by the state's Board of Investments.

## Notes to the Financial Schedules

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On June 26, 1998, the department received \$15 million from ARCO for administrative, scientific, and legal costs associated with the litigation. In July 1999, the department received an additional \$129 million settlement to be used for environmental restoration work. The state has an outstanding claim against ARCO for an additional \$200 million, which has not been resolved. The Natural Resource Damage Litigation Program administers environmental restoration contracts to assure the terms of the settlement are followed.

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### Tobacco Settlement

The state of Montana may receive an estimated \$920 million over 25 years as party to a settlement agreement with seven tobacco companies. The total amount of tobacco settlement funds available will be affected by a number of adjustments, including inflation and sales volume changes, contained in the master settlement agreement. State law required the department to deposit 11 percent of the tobacco settlement money received to the General Fund in fiscal years 2004-05 and 2005-06. The department recorded settlement payments totaling \$2.98 and \$2.7 million as settlement in the General Fund in fiscal years 2004-05 and 2005-06, respectively. Between July 1, 2003 and June 30, 2006, the funds are to be distributed as follows: 40 percent in the Tobacco Settlement Trust Fund, 32 percent to the State Special Revenue Fund for a Prevention program, 17 percent to the State Special Revenue Fund as matching funds for the Children's Health Insurance Program, and 11 percent to the General Fund. Ongoing payments began in April 2000 and will continue as long as the settling companies sell tobacco products and the agreement is in effect.

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### 5. Transfers

Accounting Entity Transfers on the Schedules of Expenditures & Transfers-Out for fiscal years 2005-06 and 2004-05 are related to Motor Vehicle Division activities. House Bill 261 of the 2003 legislative session authorizes the department to draw funds for the development of a new motor vehicle system and transfer funds to the Capital Projects Fund. At the start of fiscal year 2005-06, the department changed directions in the development of the new motor vehicle system from developing in-house to contracting with Bearing

## **Notes to the Financial Schedules**

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Point. In fiscal year 2004-05, the department transferred an additional \$3.7 million from the motor vehicle account in the State Special Revenue Fund to the General Fund in accordance with Senate Bill 493 of the 2003 legislative session.

## **Department Response**

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**ATTORNEY GENERAL**  
**STATE OF MONTANA**

Mike McGrath  
Attorney General



Department of Justice  
215 North Sanders  
PO Box 201401  
Helena, MT 59620-1401

October 5, 2006

Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division

**RECEIVED**

**OCT 06 2006**

**LEGISLATIVE AUDIT DIV.**

Dear Scott:

The staff of the Department of Justice and the staff of the Crime Control Division wish to express our appreciation for the professionalism of your audit team during our financial compliance audit. As you know, July is always an extremely busy month for our accounting staff due to the fiscal year-end processes, and we appreciated the willingness of your audit team to work with us during this busy season. The audits of the Legislative Audit Division provide valuable and timely information for us to evaluate our programs functions and our accounting processes. Thank you for the opportunity to review your audit report and to provide our comments.

Following are the responses of the Department of Justice and the Crime Control Division to the audit recommendations presented in your audit report covering fiscal years 2005 and 2006.

**Recommendation No. 1**

**We recommend the department implement procedures to ensure motor vehicle revenues received from counties are reasonable.**

We concur. The current motor vehicle database was not designed to capture specific details for revenue analysis and does not readily provide the statistics necessary to validate the accuracy of the motor vehicle collections reported by the counties.

As of July 2006 motor vehicle revenues are reported to the Department of Justice by the counties. The Department of Justice Motor Vehicle Division hired an auditor to analyze each of the county motor vehicle collection reports to ensure the accuracy and completeness of the revenues reported by the Department of Justice to SABHRS. The Motor Vehicle Division administrative staff and auditor's efforts will include identification of discrepancies and coordination of adjustments necessary to ensure the accuracy of these motor vehicle revenues. Additionally the new motor vehicle registration and titling system (MERLIN – Montana Enhanced Registration and Licensing Information Network) scheduled for implementation in July 2007 will provide data required to prepare more accurate revenue projections.

**Recommendation No. 2**

**We recommend the department work with the Department of Administration, as needed, to modify remittance terms for Montana Interactive, Inc. collections to comply with state deposit law.**

We concur. We will work with the Department of Administration to ensure that deposits are made in a timely manner.

### **Recommendation No. 3**

**We recommend the department properly account for Montana Law Enforcement Academy revenues, Youth Detention Facility expenditures and Construction Work-In-Progress assets in accordance with state law and policy.**

We concur. The Department of Justice and the Crime Control Division continually strive to properly reflect financial transactions in accordance with state law. We will make every effort to insure that proper accounting procedures will be used to account for revenues, expenditures, and “work in progress assets” in accordance with state policy.

### **Recommendation No. 4**

**We recommend the Department:**

**A. Implement procedures to ensure compliance with laws related to revoked license plates, back taxes, military draft registration requirements, and distribution of motor vehicle revenues.**

**B. Adopt rules for laws related to sale of driver’s license receipts, generic specialty license plates, and specialty motorcycle and quadricycle license plates as required by state law.**

We concur. Section 61-6-304, MCA, requiring the department to return the revoked plates to the offender upon proof of liability insurance was an unfunded requirement by the legislature to collect the confiscated license plates, monitor the insurance compliance, and return the confiscated license plates to the vehicle owner. Having the courts dispose of the confiscated license plates and issuing a new plate upon proof of insurance is less costly and allows the vehicle owner to acquire the new license plates in a more timely manner. The department will propose a statutory change to the legislature to support the current practice.

We will seek to amend Section 61-3-503, MCA, to comply with the legislative intent to eliminate the back taxes on vehicles not registered every year.

Section 61-5-126, requiring the department to notify individuals potentially eligible for military draft that their names have been released to the Selective Service System was not funded, nor does the department have the resources to comply with this requirement. Legislation will be introduced in 2007 to eliminate this notification requirement.

Section 61-5-121, MCA: The misunderstanding of 2005 law changes regarding the distribution of driver licensing revenues has been clarified and corrected. Corrections have been made in the distribution of the funds to comply with the legislative intent.

The department is continuing to work on the development and adoption of administrative rules for MCA Sections 61-5-111, governing the sales of driver’s license receipts; 61-3-474, prescribing the design of generic specialty license plates and 61-3-415, establishing the criteria for grants for Montana children who are ill.




**Recommendation No. 5**

**We recommend the department implement procedures to deposit collections timely as required by state law.**

We concur. The Department of Justice has instituted procedural changes regarding the initial fee of \$4,000 for each generic specialty license plate design. This fee will be immediately delivered to the Department of Corrections upon receipt and will no longer be held by the Department of Justice pending approval of the sponsored license plate application. Should an application not receive approval, a request will be made to the Department of Corrections to refund the fee to the applicant.

The Department of Justice has terminated the practice of driver licensing station personnel making change from the previous day's deposits. Daily deposits are retained in whole and delivered timely to the local banking institutions once the daily reconciliation process has been completed. A review of the adequacy of the startup monies for each driver licensing location is nearly complete and will result in the appropriate increase of startup funds as needed on a location-by-location basis. Additionally, the department is acquiring safes for those driver licensing offices that do not have a safe in the office to ensure the safekeeping of the funds. Compliance with department policies and procedures regarding the safeguarding of state funds will be closely monitored by department management staff.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Mike McGrath', with a stylized flourish at the end.

**MIKE MCGRATH**  
Attorney General